

Cigarette and Tobacco Tax Revenue

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During the 2007 Legislative Session, the cigarette and the tobacco tax rates were increased with enactment of SF 128 (Cigarette and Tobacco Tax Increase Act). The law change was effective on March 16, 2007, and provided the following:

- Increased the cigarette tax rate from \$0.36 per pack of 20 cigarettes to \$1.36 (an increase of 277.8%).
- Increased the tobacco tax rate from 22.0% of the wholesale cost to 50.0% of the wholesale cost.
- Increased the tax on cigars from 22.0% of the wholesale cost to a rate of 50.0% of the wholesale price or \$0.50 per cigar, whichever is less.
- Changed and increased the tax on moist snuff from a tax at the wholesale cost to a tax rate of \$1.19 per ounce.
- Created the Health Care Trust Fund (HCTF) and specified that beginning in FY 2008, the first \$127.6 million of cigarette and tobacco tax receipts be appropriated annually to the HCTF.

Since the tax rate was enacted, two other significant events have had an impact on the State of Iowa's cigarette and tobacco tax revenue. This includes:

- Enactment of HF 2112 (Smokefree Air Act) that was implemented on July 1, 2008.
- Enactment of the federal government's cigarette and tobacco tax increase. The increase in the federal cigarette tax rate was approximately \$0.62 per pack and also significantly increased the federal tax rate on other tobacco products.

Although the actual impact of these two events on State cigarette and tobacco tax revenue is difficult to measure, the result appears to have reduced State cigarette tax revenue. **Chart 1** provides the twelve-month moving total revenue for the cigarette tax, the tobacco tax, and the combined cigarette and tobacco tax. The overall cigarette tax revenue has decreased since hitting \$233.2 million in July of 2008. After several months of decreases, cigarette tax revenue has flattened out and stood at \$206.1 million at the end of June 2010. Despite the federal tax on other tobacco products, the tobacco tax revenue has continued to increase.

Health Care Trust Fund – General Fund

Beginning in FY 2008, the Iowa Code required the first \$127.6 million generated from cigarette and tobacco tax to be appropriated from the General Fund to the HCTF within the fiscal year. The standing appropriation to the HCTF has been impacted by both General Fund across-the-board reductions and legislative changes. Changes to the HCTF include:

- A 1.5% General Fund across-the-board reduction resulting in a decrease of \$1.9 million to the HCTF in FY 2009.
- A reduction in the standing appropriation beginning in FY 2010 with enactment of HF 811 (FY 2010 Health and Human Services Appropriations Act). The standing appropriation was reduced to \$117.8 million. Additionally, the FY 2010 General Fund appropriation to the HCTF was reduced by an additional \$11.8 million due to a 10.0% FY 2010 General Fund across-the-board reduction. The final FY 2010 appropriation to the HCTF totaled \$106.0 million.
- The standing appropriation was reduced to \$106.0 million beginning in FY 2011 with enactment of HF 2526 (FY 2011 Health and Human Services Appropriations Act).

More Information

LSA Daily Receipts: <http://www.legis.state.ia.us/receipts/daily.html>

LSA Monthly Revenue Memo: <http://www.legis.state.ia.us/Fiscal/totaltax/>

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Chart 2 provides information pertaining to the distribution of cigarette and tobacco tax revenue from FY 2003 through estimated FY 2011 (the estimated FY 2011 cigarette and tobacco tax revenue is based on the March 2010 Revenue Estimating Conference (REC) estimates). Prior to FY 2007, cigarette and tobacco tax revenue generated between \$95.1 million and \$98.7 million for the General Fund. In FY 2007, the amount increased substantially with the increase due to the tax increase that occurred just prior to the fourth quarter of the fiscal year. Beginning in FY 2008, the distribution between the General Fund and the HCTF is as follows:

- FY 2008: The General Fund received \$123.1 million (49.1%) and the HCTF received \$127.6 million (50.9%).
- FY 2009: The General Fund received \$113.1 million (47.4%) and the HCTF received \$125.7 million (52.6%).
- FY 2010: The General Fund received \$126.1 million (54.3%) and the HCTF received \$106.0 million (45.7%).

The standing appropriation for the HCTF for FY 2011 is \$106.0 million and based on current REC estimates the Fund is estimated to receive approximately 47.2% of the cigarette and tobacco tax revenue generated in FY 2011.

